Behind Britain's housing crisis—the financialisation of housing and the rise of the rentier class

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Wherever you go, one topic dominates the conversation: the high and ever-rising cost of housing, be it mortgage payments or rents.

In London, it takes four incomes to afford a two-bedroom apartment. The high cost of housing is pushing people into poverty and homelessness. Many of those made homeless are families with children.

According to the affordability rule, rent should not exceed 30-35 percent of gross household income. Yet two nurses earning £38,000 each will struggle to pay the average rent in London in even half of London's boroughs. So, without an income well above average or access to subsidised housing, two incomes are essential, and even then, location matters enormously.

As a result, about one quarter of London's population—and one in three children—are living in poverty and are struggling to meet basic living costs.

In the poorer countries, the situation is far worse. More than 1 billion people, one seventh of the world's population, live in informal housing, which includes unplanned, squatter and marginal settlements, unconventional dwellings, non-permanent structures, inadequate housing, slums, and housing not in compliance with planning and building regulations.

Over the last 45 years, successive British governments have overseen a massive sell-off of public land and public housing to the private sector; legislation and regulation to support the expansion of credit for the land and property sector; the bailout of banks and mortgage lenders in the 2007-08 financial crisis; and soaring inflation of land and housing prices. These are universal processes and are reflected to a greater or lesser extent in all the advanced capitalist countries.

The sale of public land and the growth of the real estate sector

Between 70 and 75 percent of housing costs in Britain today reflect the price of the land, not the building itself, up from just 2 percent in the 1930s. While this is higher than in most other advanced capitalist countries, it is at least 50 percent in the US, France, Germany and Australia and a staggering 80 percent in South Korea.

Based on data from the Office of National Statistics, the real estate sector has, since the 1990s, been the single most significant contributor to the UK's economic growth. Its Gross Value Added (GVA) at £270 billion in 2024, up from £40 billion in 1990, is the largest for any single sector, including Britain's much vaunted financial sector. It testifies to the increasing parasitism and non-productive nature of modern capitalism.

Precipitating this growth were the neo-liberal policies that began in the late 1970s in the US and UK. Conservative Prime Minister Margaret Thatcher launched a massive privatisation of state-owned enterprises at knock-down prices. Many—like water, electricity, coal and the railways—owned vast tracts of land that their new owners then sold off to finance dividend payouts and loans, and in the process, a new source of income—land or "ground" rents. Others, such as National Grid, which owns the gas and electricity transmission networks, became landlords, renting out their surplus properties.

In addition, successive governments used a variety of sticks and carrots to force public agencies such as local authorities, schools and the National Health Service to sell off their land—typically at fire-sale prices—to balance their books as public funding was cut, resulting in a 70 percent reduction in the estate of the Department of Health to cite but one example. In total, around 10 percent of Britain's land area has been sold off since 1979.

The Right to Buy

The transfer of housing to the private sector has been no less significant. Thatcher's Right to Buy (RTB) scheme was by far the largest of Britain's privatisations. The sale of Britain's public housing — built following the Russian Revolution and World War I as "Homes fit for Heroes" and paid for by generations of British workers — realised between £50 and £60 billion in the first 25 years.

Under RTB, public housing tenants were given the right to buy their homes at discounted prices, with many selling their homes to private landlords. At the same time, the government allowed commercial banks to enter the mortgage market, previously the preserve of building societies and their depositors, thereby greatly expanding home lending. The financial institutions, in turn, securitised and sold their mortgages.

By March 2025, more than two million homes had been sold under RTB for between £70 billion and £80 billion. The revenue went straight to the Treasury, not the local authorities, with little or none of this ploughed back into public housing, severely depleting the available public housing stock. In contrast, the number of new public homes built shrank to almost nothing.

But for all the right-wing economists' talk of public housing "crowding out" private housing and a promised boom in private construction to meet demand, there was only a slight rise in new private builds at the end of the 1980s, before falling back again and stabilising at around 150,000 a year. With a rising population and an increase in the number of single-person households, demand for housing has increased without a corresponding increase in supply. This, in turn, served to raise rents.

More than 40 percent of all public housing sold under RTB in England is now being rented out privately at market rates, with as much as 86 percent in Brighton, 73 percent in Milton Keynes and 59 percent in Dover. This has increased the rental stock belonging to the private sector—comprising corporate landlords, buy-to-let landlords, and others — to around 70 percent of the total rental stock, with social landlords and local authorities owning or managing the remainder.

This means that tenants now face private rents that are significantly higher than public housing, often with poorer living conditions. Thus, despite all the hype about Britain becoming a "property owning democracy", the percentage of owner-occupiers at 63 percent is only a few percentage points higher than in 1979. Or to put it another way, the RTB was a public relations exercise to expand and legitimise the rentier class.

To cap it all, alongside its sale of public land via privatisations, the de facto if not de jure forced disposals of public land and property to enable public bodies to stay afloat, and the RTB that created the new real estate sector and corporate landlord class, the government provided rent subsidies for those who could not afford the market rate. And for a market rate that was much higher than the rate that would have been had houses remained under public ownership.

In 1982-83, the Thatcher government merged several pre-existing schemes into a single national system, creating the Housing Benefit, which was later standardised in 1988 and payable by local authorities for private renters. Since 2013, Housing Benefit has been phased out for many claimants and replaced by Universal Credit.

That is, the high private sector rates were and are directly subsidised by the government—yet another subvention that lines the pockets of the financial elite.

Housing Associations

In 1988, after the initial surge in RTB purchases had subsided and the most desirable council homes had been sold, the Thatcher government allowed local authorities to sell their remaining, very dilapidated housing stock *en masse*. It turned to housing associations, the so-called third sector or not-for-profit housing, whose origins lie in the 19th-century philanthropic and voluntary organisations, and housing associations specially created for the purpose, subject to a ballot of tenants, for these "stock transfers". The Act redefined housing associations as non-public bodies and granted them access to private finance to allow them to carry out the necessary renovation and refurbishment, whose financing costs the councils had long been denied.

But it was Tony Blair's incoming New Labour government of 1997 that got the Conservatives' policy up and running, putting pressure on the councils to offload their estates and tenants onto the housing associations and wiping out the debt attached to the estates they acquired. New Labour portrayed it as part of its much-vaunted Third Way — along with its Public-Private Partnerships, which accomplished the privatisation of public services like health that were neither politically nor financially amenable to outright privatisation — that was neither profit-driven nor state-managed.

A National Audit Office report in 2003 stated that the improvements carried out by the housing associations would have cost £1.3 billion less if councils had been allowed to use grants and loans to carry out the renovations themselves.

In 2008, the Labour government even changed the law to enable the establishment of for-profit housing associations, a growing sector backed by private equity, developers or investment funds. In 2010, the incoming Conservative-Liberal Democrat coalition government cut by two-thirds the grants for housing associations, forcing them to take on additional debt and raise their rents to finance it. This, in turn, has forced them to diversify into other construction and facilities management operations, so that housing associations are increasingly resembling private corporations, paying their CEOs exorbitant salaries.

Housing associations now run 60 percent of the total social housing stock of 4 million homes, up from 13 percent in 1985, with local authorities managing the rest.

Successive governments legislate and regulate for the benefit of the rentier class

All this was accompanied by new legislation and regulations that made the acquisition of land and housing more attractive and increased their value. The Thatcher government's 1988 Housing Act ended rent controls in England and Wales, enabling rents to be set by the "market", and ended secured tenancy, introducing fixed-term or short-term tenancies that became the default under the 1996 Housing Act, initiating insecurity of tenure for private rental tenants and allowing no-fault eviction of tenants under Section 21. The 1996 Act also introduced the Buy to Let (BTL) mortgage, offering far lower interest rates than had previously been available to prospective landlords.

The New Labour government, taking office in 1997, did nothing to reverse any of these policies or trends that had become an international phenomenon. Indeed, most of the increase in the value of the real estate sector took place after the 2007-08 financial crisis. The crisis arose from intense speculation in US housing and property markets, fuelled by "subprime" mortgage lending to low-income households and marketed through complex derivatives to international investors.

Central banks and governments around the world, particularly in the US, UK and the European Union, stepped in to rescue the banks—but not the millions of households in the US, Ireland, Spain and other countries that lost their homes when they defaulted on their repayments. They took measures that fundamentally reshaped "asset" markets, including the housing market.

The Bank of England slashed interest rates from 5 percent in 2008 to 0.5 percent in March 2009, lowering the cost of borrowing and fuelling the demand for mortgages and property investment. Its purchase of £200 billion of government bonds, known as Quantitative Easing (QE), further reduced long-term interest rates and accelerated the trend towards higher-yield assets such as real estate.

It relaxed capital requirements and stress tests to ensure that banks could continue lending and enable mortgage markets to continue functioning as global finance dried up. The impact on real estate was significant, with investors piling into property and driving up prices, particularly in the land component of housing value, which ballooned above all in London, as real estate became the preferred investment vehicle and the UK's largest economic sector.

As well as shoring up the banks, George Brown's Labour government nationalised the central high street banks and injected capital into them to prevent their collapse.

According to the Bank of England's own estimates, the real cost of a UK house in 2014 would have been 22 percent lower without the stimulus provided by Quantitative Easing, with the coalition government's 2013 Help to Buy scheme fuelling a further increase in demand. This reduced the initial deposit to just 5 percent for new builds, mainly for first-time buyers, and provided a government loan of 20 percent and a high loan-to-value mortgage guarantee to encourage lenders to offer loans. It was widely criticised for benefiting property developers more than buyers.

Both the government and local authorities helped the Buy-to-Let (BTL) market, introduced in 1996, take off. A £1 billion fund was made available to investors between 2012 and 2016 to underwrite their projects, as well as making it easier for them to get planning permission via the 2018 National Planning Policy Framework.

In the Manchester area, which, like London, has seen a significant increase in the number of BTL builds by the corporate sector, local policymakers also funnelled national subsidies towards these investors, with Greater Manchester's Housing Investment Fund lending £167 million to six high-profile developments. Developers in central Manchester and its neighbouring Salford and Trafford also benefited from an indirect subsidy, namely the relaxation of affordable housing requirements.

The Conservative government's 2016 Housing and Planning Act extended the compulsory sale of "surplus" land and property from local authorities to all other public agencies. The London Metropolitan Police has sold off more than £1.1 billion worth of land and property since 2013, including dozens of police stations and operational buildings across the capital. The Ministry of Defence has sold nearly £2 billion worth of land and property, with several sites sold at bargain basement rates, enabling the buyers to make windfall profits.

The high street banks now direct most of their lending to property and residential mortgages, accounting for around 60 percent of total UK bank lending, with a further 10 percent lending for commercial property. Residential mortgages alone account for more than £1.7 trillion in outstanding balances as of 2025, exposing the economy to volatility in the housing market and a re-run of the 2008 financial crash.

Land price inflation

Land prices surged after 1997 and then again after the 2008 financial crisis. This was driven by the availability of cheap credit under a system that was deregulated and liberalised after 1979, particularly after 1996, when cheap credit was made available for Buy-to-Let. Residential mortgage lending increased by more than 500 percent in the decade after 1995.

At around £50-55,000 an acre, land prices are now 10 times those prevailing in 1979 (around £5,000 an acre), with urban land, especially in London and the south east, rising at about 5 percent a year in real terms. This represents one of the most dramatic asset price inflations in modern British economic history. By way of comparison, the average value of land increased by about 1.5 percent a year between 1900 and 1980.

With land ownership concentrated, this has benefited the financial elite, including corporations, wealthy families and individuals who own land for both capital appreciation and rental income.

The increase in land values means that land constitutes a major component of the UK's non-financial wealth and has outpaced all other asset classes. While intellectual property assets rose by around 200 percent in real terms between 1995 and 2025, machinery, equipment and weapons systems rose by 140 percent, inventories by 100 percent, infrastructure and buildings without land by 100 percent, land rose by 300 percent.

This reflects a structural shift: land is no longer just a factor of production; it's a speculative store of wealth. It has fundamentally reshaped the UK economy, making housing—both rented and owner-occupied—unaffordable and fuelling wealth inequality, while hollowing out the state's asset base without any corresponding productivity growth.

Furthermore, Britain's tax structure has favoured the ownership of land as an asset class. While the UK's capital gains tax on the sale of land is similar to that elsewhere, it has relatively low rates for high-value gains and does not levy capital gains tax on primary residences. The UK is one of only a handful of countries that does not impose annual tax on property or land values. Neither does the UK have any mechanism to tax the increase in land value after planning permission has been granted. All this combines to make the UK attractive to international investors in land and property.

It was Blair's New Labour government that introduced Real Estate Investment Trusts (REITs) in 2007 to boost liquidity in the real estate sector. REITs are publicly listed companies that own, operate or finance income-producing real estate. They allow individuals to invest in large-scale property portfolios, such as offices, shopping centres, warehouses or housing, without having to buy property directly. Exempt from both corporation tax and capital gains tax, they must distribute more than 90 percent of their rental income to shareholders annually.

There are now more than 110 REITs that collectively manage tens of billions of property-based assets, with major REITS such as British Land, Landsec, and SEGRO covering a range of sectors, including logistics, retail, office and residential. They have become the cornerstone of pension funds and investment portfolios.

The impact on the cost of home ownership and rental costs

This means that the financial sector (including private equity funds, hedge funds, pension funds and insurance companies), property developers and builders, as well as corporations with extensive land banks such as National Grid and Royal Mail, and wealthy families/individuals own much of Britain's non-farming land. This is predominantly commercial property—retail, office and industrial—and undeveloped land; however, these sectors now play a small but increasing role as residential landlords, particularly in new large-scale urban development projects.

While owner-occupiers form the majority of households at 63 percent in 2025, 20 percent of households rent from private landlords and 17 percent from public or social housing organisations. Nevertheless, despite the growth of corporate landlords, the overwhelming majority of private renters (92 percent) are renting from small landlords. These are often pensioners (47 percent, according to the English Private Landlord Survey 2024) or "accidental" landlords that own a few properties, acquired through inheritance or retained after downsizing from the family home, and may depend on the rent to supplement their pension amid rising inflation.

Owner occupiers have seen a rise in mortgage repayments of £1,100 to £1,300 a month that averaged 15-20 percent of average income in 1979 to 30-35 percent in 2025, and very much more in London and the south east, increasing the burden on household income. First-time buyers are faced with record mortgage-to-income ratios to the extent that they need family support to manage.

But renters have seen a staggering 1,000 percent real-term rise in rents. The private rental sector's role in the housing market has grown from about £100 billion (in 2025 prices) since 1979 to £1.3 trillion today. It reflects both the growing number of private sector rentals—now double that of 1979 and second only to owner-occupation—as well as rising rents.

The average UK private sector rent is now approximately £1,350 a month, more than triple that of the late 1970s, especially in London and the South East, and more than the cost of the average mortgage.

But crucially, the explosive growth in rent has outpaced the growth in wages, which have increased by only 35–45 percent over the same period (depending on whether the mean, median or weekly vs hourly earnings are used), as inflation eroded whatever meagre increases were won. It is this that has led to the now rampant cost of living crisis and the rise in homelessness, the number of young people still living with or returning to their parents, and a falling birth rate, as young couples can no longer afford to have children.

While rents in social/public housing are generally lower at around £420 a month (£600 in London), social renters are disproportionately affected by unemployment, disability, and low wages, with many relying on Universal Credit or Housing Benefit to make ends meet.

Rising inequality

The British housing market, where house prices have risen more than anywhere else in the developed world except perhaps Canada, has also led to greater economic and social income and wealth inequality in and between generations.

Wealth inequality as measured by the Gini coefficient, already high in 1979 at 60 percent, has risen to nearly 70 percent today, primarily driven by housing and land price inflation, with younger people increasingly locked out of home ownership and facing high rents and insecure work. The bottom half of households have little or no financial assets beyond their current account at the bank, as the rising cost of living has eroded the capacity of lower-income groups to save. In contrast, financial assets are heavily skewed towards the top decile.

But the increase in income inequality as measured by the Gini coefficient has been much greater, rising from between 25 and 28 percent in 1979 to 34-36 percent in 2025, as wages stagnated in absolute terms and insecure work, including zero-hours contracts, the gig economy, short-term contracts and part-time employment, increased. Tax policy became less redistributive as the top income tax rates were cut by the Conservative government in 1988, along with a shift to regressive consumption-based taxes that took a far greater proportion of income from the poor than the rich. The welfare safety net was shredded with a shift from universal to means-tested support.

This has led to ever-increasing indebtedness as successive governments relaxed controls on lending. Total household debt, including both mortgages and unsecured debt (personal loans, student loans and credit card debt), as a percentage of income was less than 30 percent in 1979. It has now risen to around 120 percent. Unsecured debt as a percentage of income was between 23 and 29 percent in 2024. The increase in the absolute level of unsecured debt—especially student loans and personal credit—indicates the increasing financial strains on household budgets.

Whatever remained of the welfare state and a relatively egalitarian society by historical standards in 1979 is all but erased, with Britain a deeply polarised society and an asset-driven economy.

The provision of decent housing, so essential to humanity, is incompatible with capitalism, a social order based on private profit, not social need. Access to universal and high-quality housing cannot be achieved by tweaking housing legislation or financial regulation; it can only be won through a social and political struggle by the working class against inequality and the capitalist profit system.

The productive forces of society—the giant banks, financial institutions and corporations, including the property companies—must be taken out of the hands of the financial elite and placed under the democratic control of the population. Combined with a major redistribution of wealth, such measures would free up immense resources for building homes and social infrastructure and ensuring all the rights of working people.

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